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NED DAVIS RESEARCH

Dynamic Allocation Strategy

APRIL 2025

Macro/Market Update

Global economic growth slowed in February amid mounting U.S. risks, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). The global composite edged down to its lowest level since December 2023.

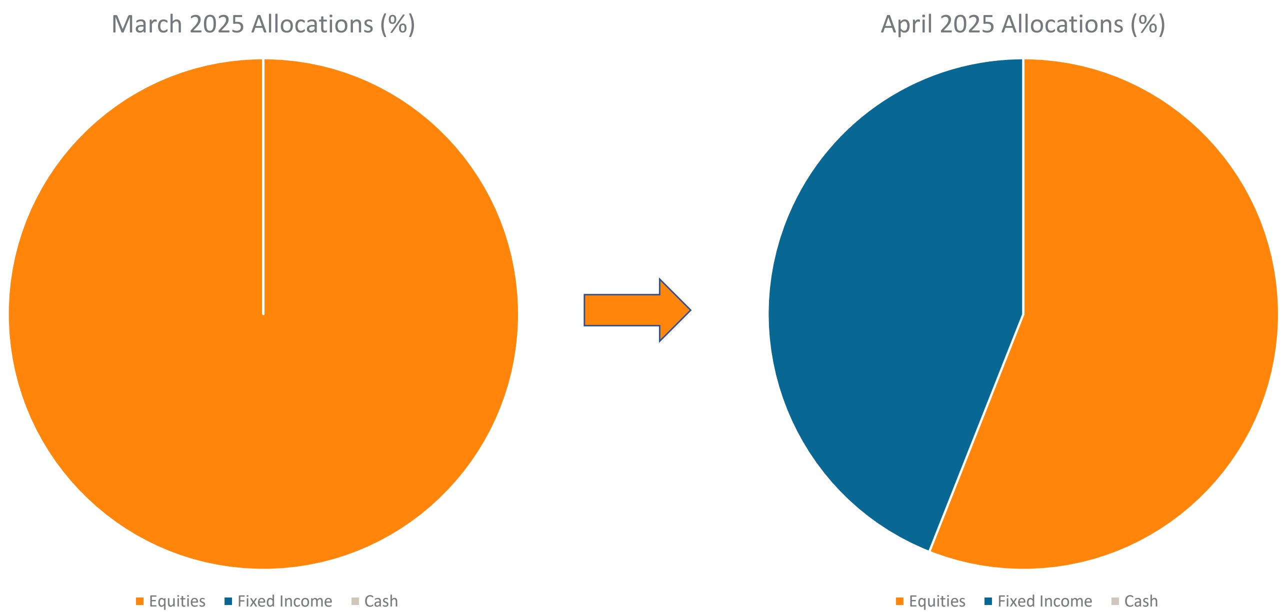
The three-month change of the composite turned negative, which has historically been associated with less upside in global equities. The good news is that the PMI remains well above its recessionary threshold, a condition associated with the worst equity bear markets.

Leading indicators within the report were less upbeat and point to weaker, but still-positive growth, in the months ahead. Global new orders, while still growing, did so at the slowest pace in over a year. The future output index also edged down.

The U.S., the world's largest economy and biggest contributor to the global PMI, was the key culprit behind the fall in the global PMI, as rising domestic uncertainty has curtailed growth. Excluding the U.S., the composite PMI climbed to a four-month high.

During March, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 450 basis points (bps). It was the worst month for stocks relative to bonds since June 2022. Stocks have underperformed bonds for three of the last four months. Although volatility has risen, a larger market decline would likely require rising bond yields, increasing recession probability, slowdowns in trailing and forward earnings growth, and dropping beat rates.

Asset Allocation Summary

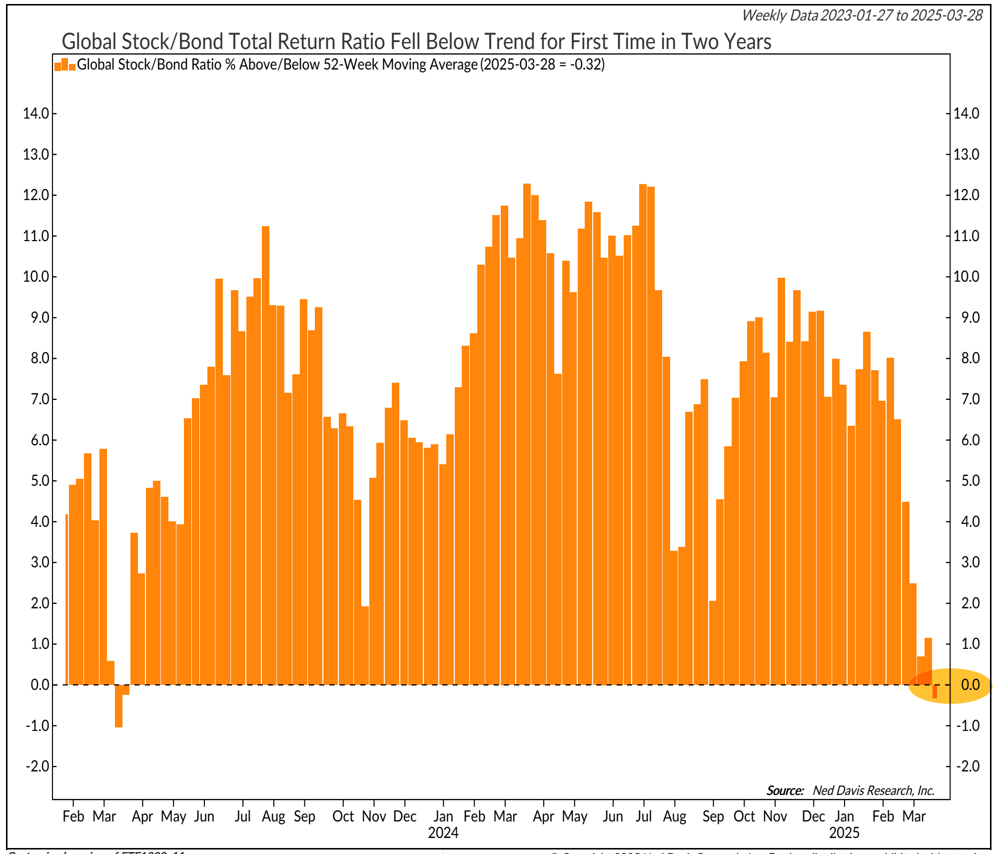


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

The model's equity exposure fell to slightly below benchmark allocation. Two indicators deteriorated over the last month: the stock/bond relative strength ratio and global high yield option-adjusted spreads.

The stock/bond relative strength ratio dropped below its 52-week moving average for the first time in two years (chart right). The last time stock/bond relative strength fell below its trend was amidst concerns about financial stability due to the failure of three U.S. banks.

This indicator receives double weighting relative to the other indicators. Entering April, the trend was not the equity market's friend.



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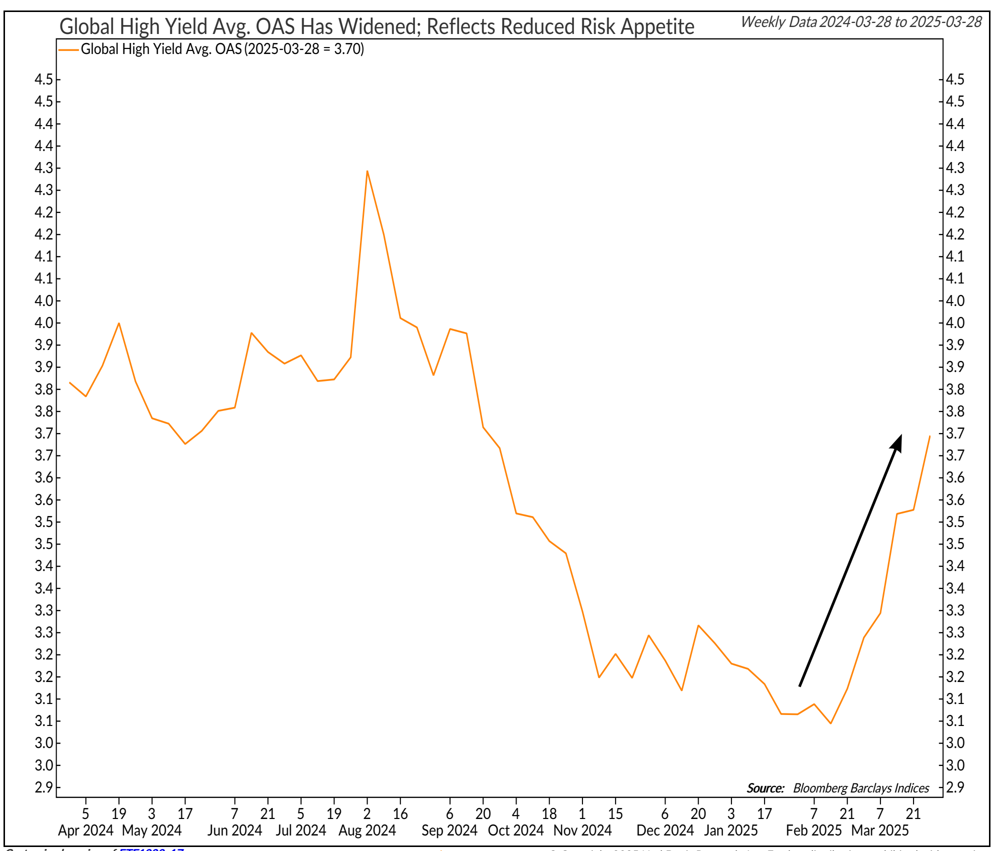

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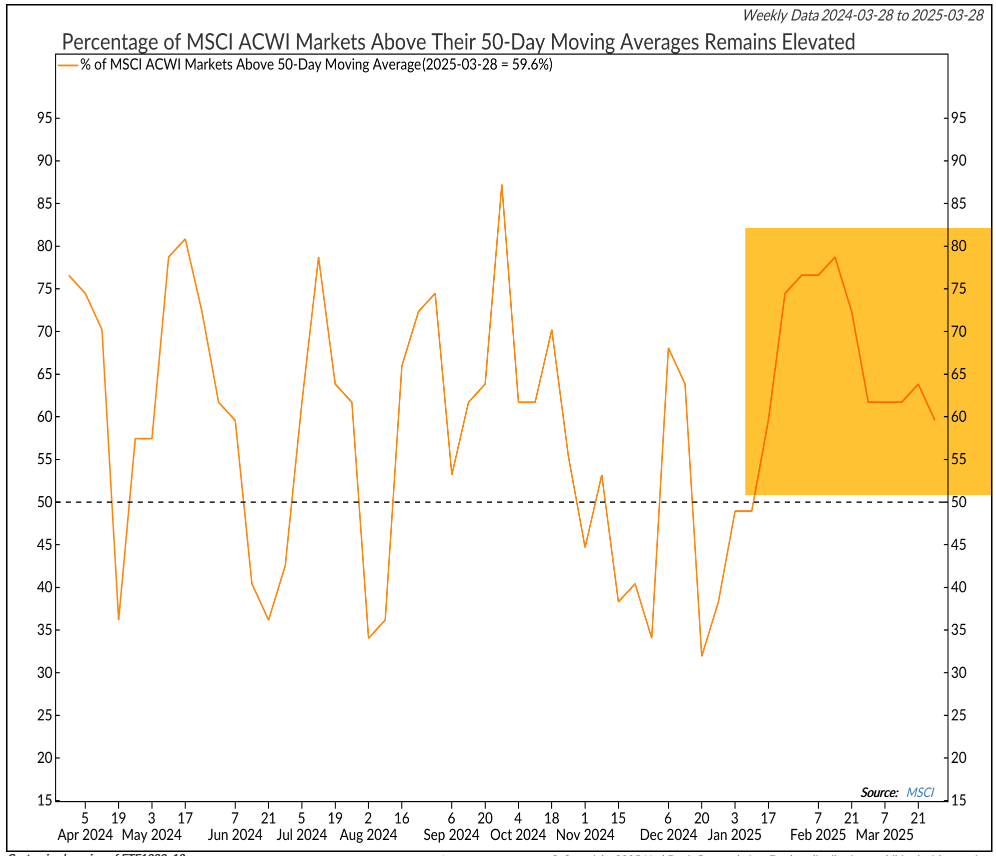
The global high yield OAS indicator has risen more than 65 basis points (bps) over the last six weeks, indicating reduced risk appetite by fixed income investors.

The last time global high yield OAS widened to this degree was following the Bank of Japan's surprising rate hike at the end of July, which sparked worries regarding a massive unwind of the yen carry trade.

Although the relative strength trend has weakened, the U.S. has been a significant contributor to the decline. When evaluating the collection of global equity markets, the story is not as negative. Almost 60% of global equity markets are trading above their 50-day moving averages (chart right). This is a significant improvement from the 38% level at the end of December.

This indicator describes the underlying health of global equities, since it tracks the number of markets participating on the upside. Elevated breadth is important because if many stocks rally, even if a few run into trouble, enough stocks remain in uptrends that they can support the popular averages.



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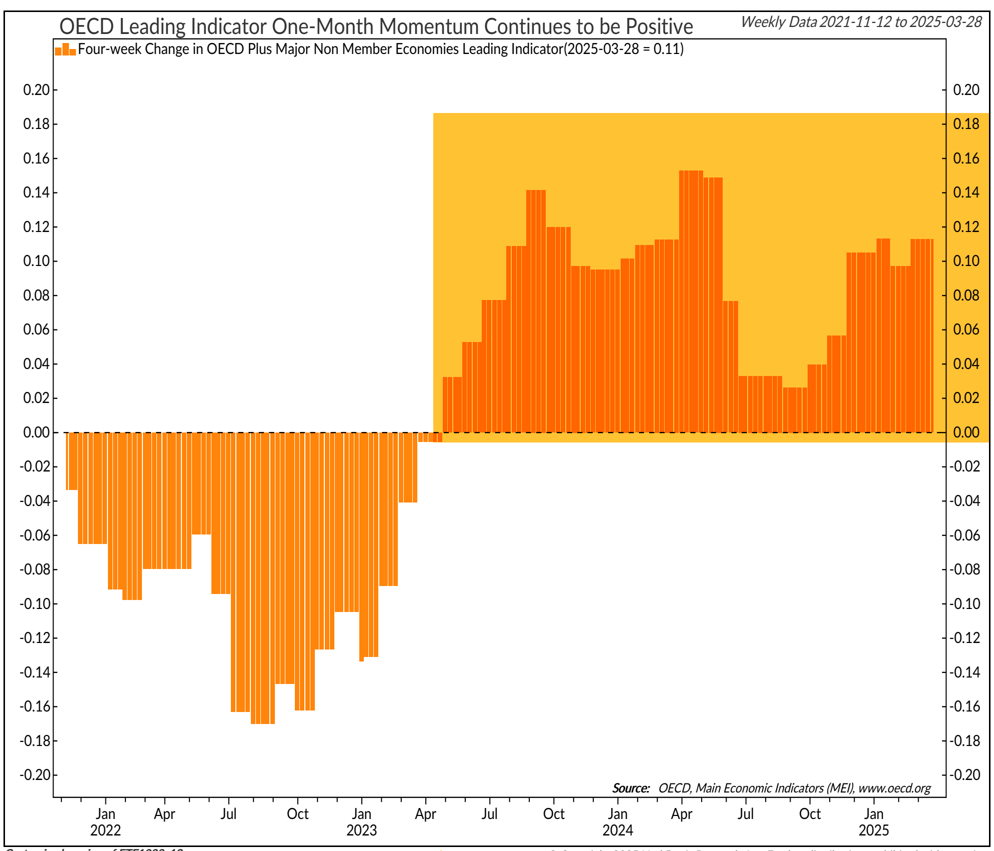

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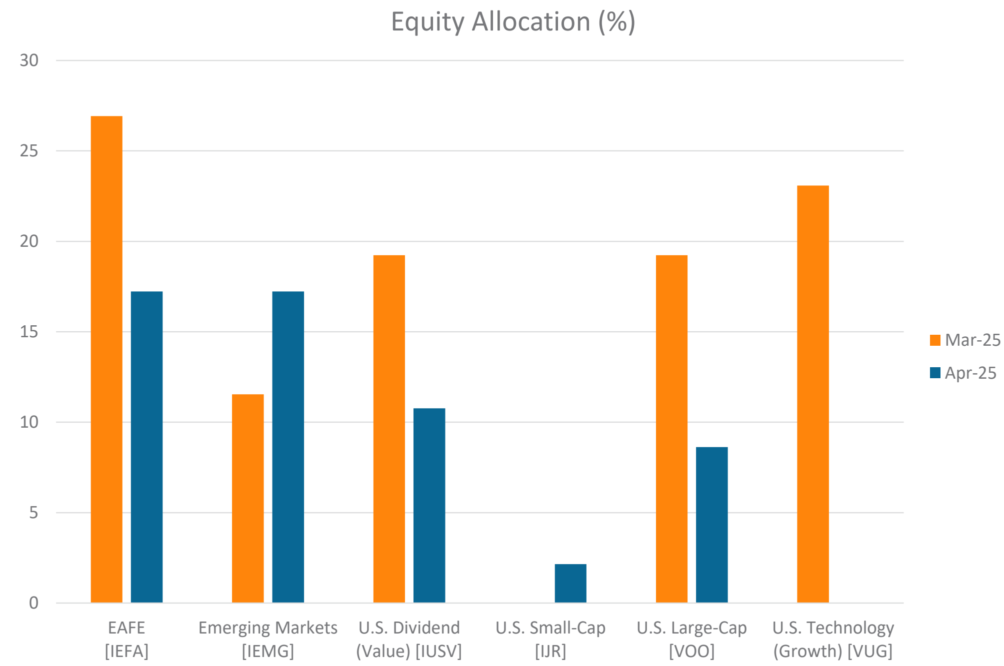
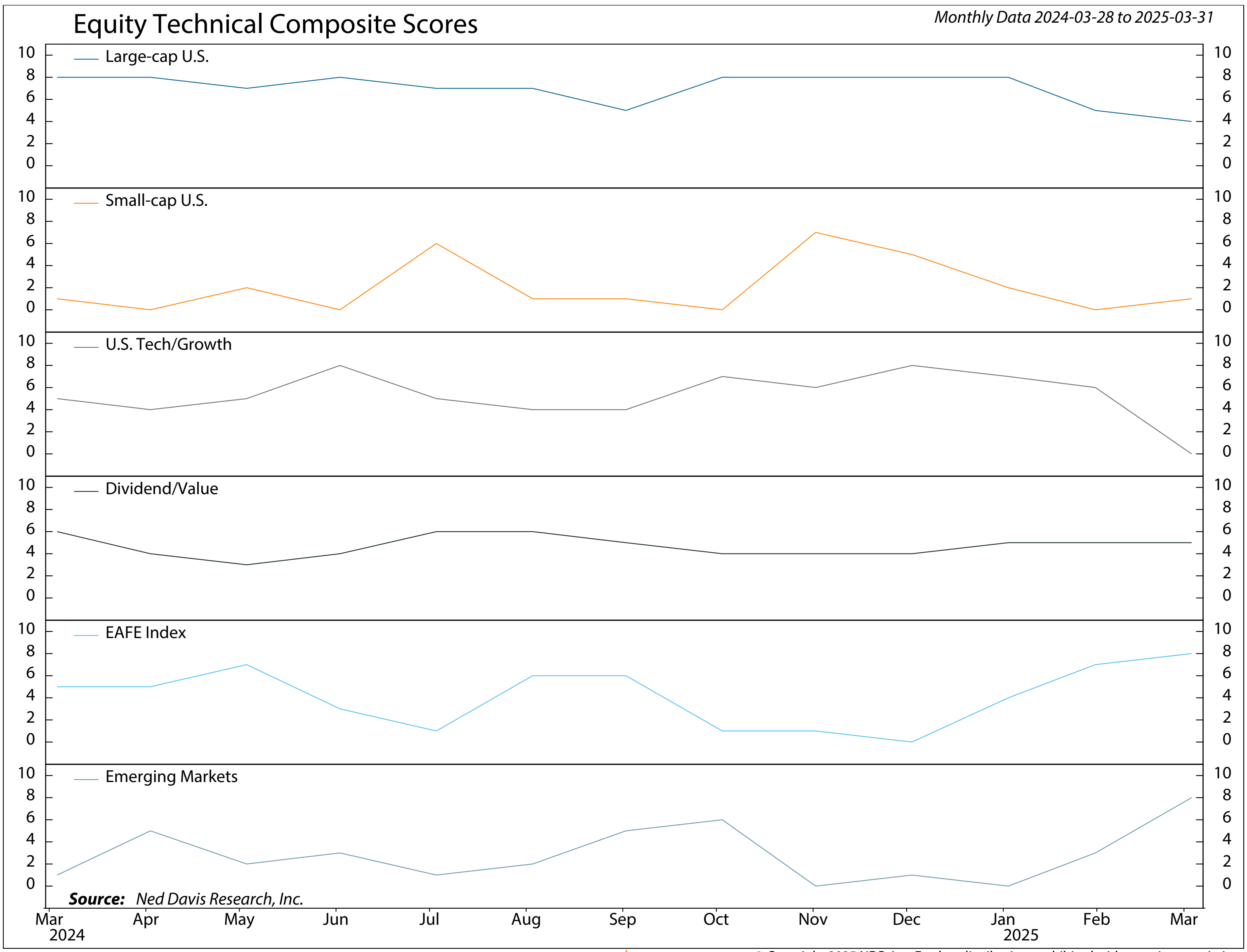
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 22 months (chart left).

The OECD creates monthly CLIs for 35 economies to capture turning points in the growth cycle. Each CLI contains a wide range of indicators such as money supply, yield curve, building permits, consumer and business sentiment, share prices, and manufacturing production. Improvement in global economic momentum is usually bullish for equities.

Equity Allocation Summary

During March, only non-U.S. markets produced positive returns. International Developed and Emerging Markets have risen for three straight months. Value was the only area in the U.S. to decline by less than 550 bps last month. U.S. Growth produced its worst return since September 2022, as it dropped almost 850 bps. International Developed and Emerging Markets each received more than 17% allocation for April (chart right).





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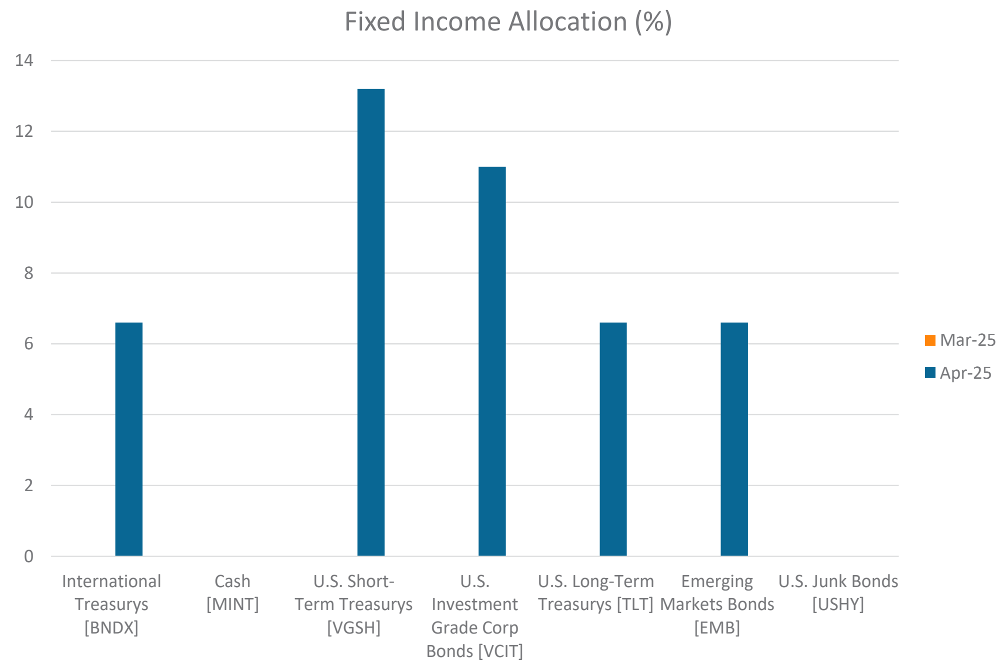
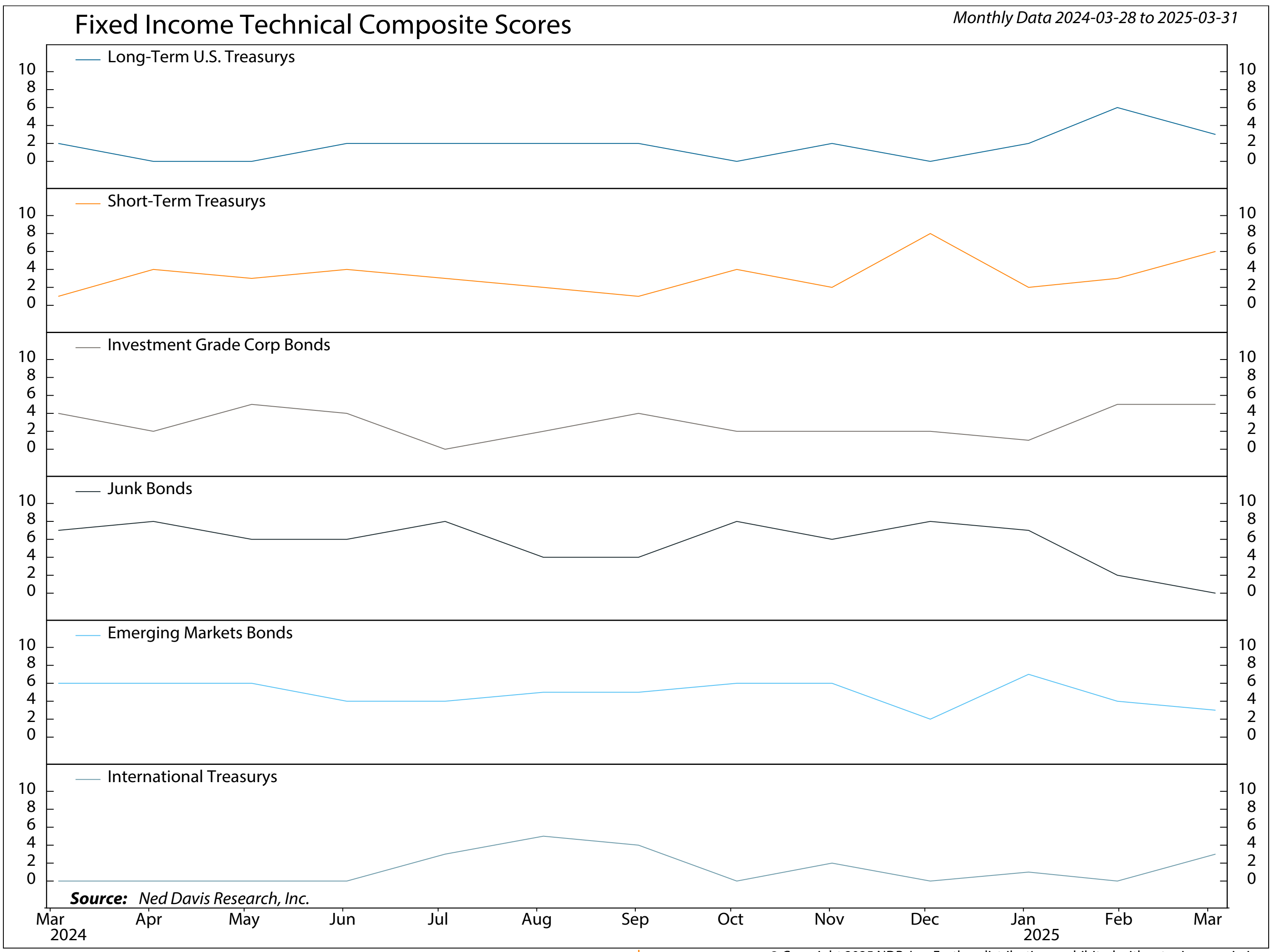
Fixed Income Allocation Summary

Only U.S. Short-Term Treasurys and U.S. Investment Grade Corporates generated positive returns in March. U.S. Investment Grade Corporates has risen for three consecutive months. U.S. Long-Term Treasurys, U.S. High Yield, International Investment Grade, and Emerging Market bonds all declined more than 100 bps. U.S. Investment Grade Corporates and U.S. Short-Term Treasurys each received more than 10% allocation for April (chart right).





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